STATEMENT OF SECRETARY OF AGRICULTURE BOB BERGLAND
Committee on Agriculture, Nutrition, and Forestry
United States Senate
Wednesday, January 24, 1979

I've been asked to testify today about the state of American agriculture.

I've also been asked to report, in the words of your Chairman, on the administration's plans in the way of farm programs and policies in 1979 and on what further initiatives--legislative or administrative--might be needed.

I'm prepared to do both.

But with your forbearance, I'd like to expand this report to include a review of the full range of Department of Agriculture activities.

As all of you know, the Department's responsibilities cover a spectrum of functions linked in one way or another with fiber and food production, pricing, quality, distribution, consumption and trade; the preservation and wise use of natural resources; and the economic health and vitality of the rural community.

Let me begin by saying the state of American agriculture is substantially better than it was a year ago.

In virtually every respect, 1978 was a good year for the American farmer. And by almost every conventional means of forecast, 1979 looks like it will be another good year.

In 1978:

*U.S. farmers produced large food and record feed crops.

*Demand, both here and abroad, was also at record levels.

*The volume of U.S. farm exports rose 18 percent in fiscal 1978, reaching 125 million metric tons, even though world supplies of food also were at record levels.

*The value of U.S. farm exports increased 14 percent to a record $27.3 billion.

*Agricultural imports were at $13.9 billion, resulting in a farm trade surplus of $13.4 billion--up 14 percent from 1977's previous record.

*Farm prices by the close of 1978 were 22 percent above a year earlier.

*Net farm income may have reached the second highest mark in history, increasing before inventory adjustment an estimated $8 billion and reaching a total of $28.1 billion.

*Farmers off-farm income, $31.4 billion in 1977, rose about $3 billion.

*Farmers total on- and off-farm net income set an all-time record, totaling an estimated $59.5 to $62.5 billion.

*The book value of farmers' total assets rose $82 billion to a record $790 billion.

In the case of 1978 farm income the figures listed are the January 1979 estimates. We will not know the final figures until later this year. I hope that whatever adjustments are made at that time will follow the current upward pattern.

It now appears that: the combination of farm and off-farm earnings made 1978 a record total income year for farm operators; that--while many individual farms still faced financial difficulties--farm incomes were higher for all major regions of the country and for both crop and livestock producers; and that most farms shared in the improved prosperity.

It also should be noted in this regard that while total farm debt increased by 14.3 percent in 1978, the book value of assets also increased. For example, the value of farm real estate rose by nearly 12 percent, the value of farm animals by 34 percent, the value of farm-owned crops stored on or off the farm by 6 percent, the value of farm machinery and motor vehicles by nearly 8 percent.

As a result, in terms of total equity American farmers are worth 11 percent more today than they were a year ago.

Encouraging as these figures are, I'm sure all of us have learned the wisdom of retraint and the folly of raising expectations beyond what the system can justify.

I believe 1979 can be another very good year for American agriculture. But two monumental uncertainties should freeze prudence into every crystal ball. We can not foresee what the weather patterns will be in 1979 abroad or at home, nor say with certainty how global economic developments will unfold and affect inflated farm production costs.

Yet we all know that these developments--in one way or the other--are certain to bear heavily upon the immediate future of American agriculture. And when we add to those critical questions still another--the cost and availability of energy supplies--then predicting what 1979 has in store for our farmers becomes even less certain.

But on the other hand, to minimize last year's gains, to underplay USDA's performance record, and to be overcautious about the new year's prospects also misleads and that, too, I want to avoid.

I will not attempt to credit the upswing in livestock prices to anything the administration did, or the Congress did, or the Secretary of Agriculture did. However, I will tell anyone that the welcome rise in farm income in 1978 came about in substantial measure because of new programs established under legislation proposed by the administration and passed by the Congress.

I have in mind, of course, the farmer-owned reserve program established under the Food and Agriculture Act of 1977 and the strong new thrust of our agricultural export program .

But this tells only half the story. It was the gratifying response to these new programs by farmers and agriculture-related industry that actually insured their success.

The Reserve Program

The farmer-owned reserve program has become the cornerstone of the food and agricultural policy we established in the spring of 1977.

By taking price-depressing excess supplies off the market, the farmer-owned grain reserve strengthens farm prices and assures consumers of continuing supplies even when there is a production shortfall here or abroad and--by releasing grain back onto the market when prices reach a specified level--protects livestock producers and consumers against sharp and sudden price rises.

We have met most of our reserve objectives. Most of the 1.3 billion bushels of grain now in storage--more than 45 percent of the carryover stocks from 1977/78--remains under the ownership not of government or the international grain traders, but of the farmers, so that if prices rise to the point that grain is released from the reserve, it will be farmers who take the profit.

With the continuation of production adjustment measures to help check supply-demand imbalances, and with the income and price support measures we instituted, the reserve program contributed substantially to stronger crop prices and higher farm income in 1978.

Crop prices, for example, are 11 percent higher than they were in December of 1977. And while most of the increases occurred in the first five months of the year, they did not slip when record supplies of feed grains and soybeans--and large supplies of food grains--were harvested. By year's end the farmer-owned reserve held in storage 875 million bushels of feed grains, 410 million bushels of wheat and 90,000 hundred-weight of rice.

Exporting Our Agricultural Abundance

There is no minimizing, either, the positive impact agricultural exports had on farm prices and income in 1978.

From the beginning, this administration has kept the expansion of farm exports high on its list of priorities. Over the past two years we have worked hard to reduce trade barriers, to develop new markets, and to encourage increased sales of our farm products overseas.

By now exports account for one of every four dollars earned by the American farmer.

For the fiscal year, farm exports reached a new dollar record--rising by 14 percent to $27.3 billion. Exports also set a new record by way of volume, climbing 18 percent to 125 million metric tons.

For the full marketing year, preliminary figures indicate that wheat exports totaled 1.12 billion bushels, within 90 million bushels of the record set in 1973/74. Corn exports reached 1.95 billion bushels, 250 million bushels over the record set in 1976/77. Sorghum exports came to 213 million bushels, just over 30 million bushels below the 1976/77 record. And soybean exports were 140 million bushels over the record level reached the year before. Total grain and oilseed exports came to more than 4 billion bushels, far eclipsing the previous high mark of 1976.

These export figures have significance beyond the obvious, of course. In addition to what they mean in terms of farm income, they serve to ease the discouraging imbalance in U.S. trade. Because we were able to export $27.3 billion in farm products while we were importing only $13.9 billion in such products from foreign sources, we concluded the year with an agricultural trade surplus of $13.4 billion, 14 percent greater than the surplus registered in 1977.

I believe that what I have just reported supports the conclusion that 1978 was, indeed, a good year for American agriculture.

But I said I would do my best to present a balanced picture, and with that in mind I call the Committee's attention to the fact that farmers had higher input and production expenses in 1978. Feeder livestock purchases led the list, rising some 40 percent over the course of the year. Feed expenditures went up 3 percent, interest payments 10 percent, real estate and personal property taxes 7.6 percent and wage rates 7.2 percent. Total input and production expenses came to $96 billion for the year, 9 percent higher than the year before.

Farmers paid 8 percent more for machinery, while their fuel and energy costs rose nearly 5 percent. On the other hand, fertilizer and pesticide prices actually declined somewhat in 1978.

The Livestock Sector

Again for the sake of perspective, I think we must consider the special situation in the livestock sector of the agricultural economy.

In 1978, price rises in the livestock sector--particularly for cattle--contributed greatly to higher farm income and to higher consumer prices for foods. For the last several years, conditions in the livestock industry have been leading almost inexorably to that result.

The stage for today's higher prices was set in the early part of the decade. Beef producers responded to favorable cattle prices during the late 1960's and early 1970's and expanded their cattle herds. The number of cattle on U.S. farms rose steadily, reaching a record 132 million head in 1975. However, in 1973 ill-fated price controls affected producer expectations and the record grain prices of that period began boosting cattle feeders' production costs at the time large meat supplies were depressing cattle prices. Facing large financial losses, cattlemen began selling off their breeding herds in what became the sharpest liquidation in history.

As cattle went to market, beef production soared--peaking in 1976, when nearly 26 billion pounds were produced. Consumers took advantage of the large supplies available at prices below the cost of production, increasing their consumption of beef to 129 pounds per capita that year.

Since 1975, the cattle herd has steadily declined and now totals about 111 million head. Beef production has also declined to a little more than 24 billion pounds in 1978. But with an almost 1-billion-pound reduction of beef on the market from 1977, consumer desire for beef has not diminished. Accordingly, prices averaged 23 percent more to allocate the reduced supply of beef.

Throughout this decade, other segments of the livestock industry also had to make difficult adjustments to similar problems. Facing 1973 and 1974's record-high grains prices, hog producers also began liquidating their herds. By 1975, however, pork production had bottomed out at about 12 billion pounds, with consumption dropping to 56 pounds on a per capita basis compared with 78 pounds in 1970.

Since 1975, pork production has been increasing, but the one percent gain registered in 1978 was not sufficient to offset the growth in population. Per capita consumption, therefore, declined.

We believe several factors are responsible for this slow rise in pork production:

*Feed costs started to increase at about the time producers made 1978 production decisions.

*Indications of a rapid rate of expansion, with resulting lower prices, could have caused some producers to alter their expansion plans.

*Severe winter weather affected breeding and caused abnormally high death losses of baby pigs.

*The incidence of disease--particularly pseudorabies--cut into production increases.

*Regulatory decisions by the government over the use of feed additives and concern over the future ban of the use of nitrite in the curing of pork may have also caused producers to hold down any production increases.

Hog farmers now are responding to good profits and it appears that production will be up in 1979. But weather again is a factor. Some of the major hog-producing areas right now are hard-hit by severe winter storms.

The thus-far slow expansion of pork production and the decline in beef has actually helped the poultry market. Since 1975, poultry production and consumption have risen steadily, to total more than 13 billion pounds in 1978--6 percent higher than 1977's production. This expansion was at about the maximum capacity for the industry.

The cumulative effect of these occurrences are apparent in the total production and consumption levels of meat in the United States. Total meat output peaked in 1977 at nearly 52 billion pounds. In 1978, it declined 300 million pounds as increases in pork and poultry offset 70 percent of the 1 billion pound decrease in beef production.

As to consumption patterns, total per capita consumption has declined almost 4 pounds since its 1976 high of 247.2 pounds. Beef consumption last year dropped nearly 9 pounds per person. Pork consumption has increased almost 2 pounds per person and poultry consumption has increased nearly 5 pounds per person since 1976.

This phenomenon is of particular concern to the USDA. Consumption patterns have shown that we are a nation of meat-eaters and our favorite meat is beef--especially hamburger. Our production of lean beef is declining rapidly and will continue to do so as herds are rebuilt. To meet the demand for hamburger, a large share of the fed beef carcasses will be ground and more imported beef, which is of the lean type, will be mixed with our fed beef to make hamburger. With supplies reduced, though, prices will undoubtedly rise for <u>all</u> types of beef.

As consumers turn to the more economical types of meat to ease the pressure on their food budget, the trends of the last few years may be continued. Should this persist over a long term, it could affect our cattle industry adversely. However, as herds are rebuilt in coming years we expect beef consumption to rise again.

Outlook for 1979

Though price relationships among crops and weather conditions in the spring will influence final planting decisions and actual crop output, we expect that--with set-aside and diversion programs similar to those in 1978--there will be a slight expansion in planted acreage. At this stage, producers have indicated larger soybean and cotton plantings. Wheat and feed grain acreage will be up very slightly, but our programs have encouraged producers to limit expansion of those crops in order to keep production in line with expected demand.

Prices are expected to hold at their present high levels, sustained in large part by the farmer-owned grain reserve, set-aside, and diversion programs, as well as continued high export levels.

Total meat production is expected to be a little over 52 billion pounds this year. We expect cattle herd rebuilding to resume, though beef production will decline another 4 to 6 percent. Hog farmers are responding to good profits and production could be up 10 to 12 percent. This year poultry production could be up 6 to 8 percent.

Livestock Prices

Choice slaughter steer prices are expected to average about $60 this year, compared with $52 in 1978. But, even at these price levels, and with relatively stable feed prices, cattle feeders will not be making excessive profits. Profit margins on some cattle now going to market are near the break-even point. With the higher prices cattle feeders have been paying for cattle to go into feedlots, cattle feeders probably will lose money on some cattle marketed later this year, even if they get $60 for them.

While higher feeder cattle prices represent an increased cost for cattle feeders, they mean improved profits for the cow-calf producers. We must have improved profits for our cow-calf men in order to get the rebuilding of the cattle herd underway.

With the anticipated larger pork supplies this year, hog prices may slip $4 to $5 below 1978. The same may hold true for poultry prices. We expect broiler prices may average about 2 cents a pound below last year's average of 44 1/2 cents.

Exports are expected to increase to a new record of $29 billion in dollar value in fiscal 1979, reflecting both a growth in demand from abroad and abundant U.S. supplies. Exports to China are expected to register the greatest expansion, but exports to most regions except the Soviet Union also are expected to increase.

After 2 years of Multilateral Trade Negotiations, we are very near to reaching agreements that would reduce trade barriers, diminish the wide fluctuations in world prices, and enhance world food security. Soon we hope to present to the Congress this total trade package, provisions of which could have a marked affect on U.S. agriculture and farm exports.

The resumption of diplomatic, cultural, and trade ties with China seems certain to have significant effects on the U.S. agricultural economy. Thus far, China has purchased 2.9 million metric tons of wheat, 2.9 million tons of corn, 80,000 tons of soybean oil, and 395,000 bales of cotton from the United States for delivery in 1979. In the future, Chinese purchases are likely to be in the 5 to 6 million metric ton range annually.

Also contributing to the bright outlook for exports is our expansion of the trade development program and the opening of our first overseas trade office. Another step to encourage the sale of farm products overseas was passage of the Agricultural Trade Act of 1978, with its intermediate credit provisions, authorities for the establishment of 6 to 25 new trade offices in major markets, and its provisions for making the Chinese eligible for U.S. export credit.

Despite accelerating expansion of agricultural exports, the uncertainties I mentioned earlier--the weather, inflation, the global economic picture, the price and availability of energy supplies--mandate caution in forecasting U.S. farm income this year. Weather, of course, is the dominant factor in production. And although cash receipts are likely to increase, particularly for livestock producers, unchecked inflation would continue to push up the cost of production inputs as well as family living costs and diminish much of the producers' real purchasing power. This unhappy prospect underscores the urgency of bringing inflation under control.

Other Factors

Several new programs launched last year are expected to make positive contributions to the well-being of American agriculture in 1979.

Farmers and ranchers facing foreclosure and unable to get credit from their usual sources received new aid last year--largely as a result of the Agricultural Credit Act of 1978. By making a total of $4 billion of credit available under a new two-year economic emergency loan program, needed assistance can be provided to farmers and ranchers caught in a financial crunch, some of whom have exhausted all other options that could help them continue farming. For others just trying to break into farming increased loan limits for other agricultural credit programs and new authorities provided by the Act can provide much needed help.

Directed by new legislation, we began the process of learning more about the makeup of our agricultural land owners in 1978--who they are, how they use their land, how program benefits affect them, and in turn, how they affect rural communities and our food and agricultural system. With the knowledge we acquire, we hope to be able to make the best program and policy decisions to maintain our strong family farm system.

Finally, as a key part of the President's effort to curb inflation, the Department of Agriculture joined with the Council on Wage and Price Stability to monitor and identify the sources of food price rises in the food and agricultural system. We begin this effort at the roots of the system--watching the prices that the farmer pays for his inputs--through the farm and marketing stages, through the check-out counter in the supermarket.

New Legislation

Mr. Chairman, we now believe we have most of the authorities we need to cope with the changing and diverse forces affecting our food and agricultural system. Our programs to adjust production, to help protect producers and consumers against uncertainty and wide fluctuations in prices, to remain a reliable supplier to our customers, already have been implemented and are working. We intend to continue to use these authorities, when necessary to their fullest extent, to meet our goals for protecting our producers and consumers and to solidify the gains we achieved in 1978. We are, however, seeking several additional legislative authorities.

To help stabilize world sugar prices, meet our international commitments and protect our producers, we will seek legislation to ratify the International Sugar Agreement. We will also work to develop a realistic, non-inflationary domestic sugar program which would enable us to maintain a viable U.S. sugar industry.

We intend to ask again for a comprehensive, nationwide, all-risk insurance reform bill to provide our farmers better protection at no additional cost to the government. Under our plan, several existing disaster assistance programs would be consolidated into one comprehensive, share-the-cost program. This proposal would insure producers against the damages of natural disasters and some other uncontrollable risks.

As I suggested earlier, we also will be asking the Congress to approve agreements and implementing legislation that will reduce trade barriers and improve terms and conditions of international trade, and make it possible for us to meet our trade and food aid commitments. Assuming a successful conclusion to the current negotiations, this will include a new International Wheat Agreement, which will provide a framework within which wheat exporters and importers can work together to ease adjustments to extreme market conditions.

Consumer Prices

Mr. Chairman, this overview of agricultural programs, policies, and prospects would not be complete without a brief consideration of their relationship to the prices consumers pay for the food our farmers produce.

The all food component of the Consumer Price Index averaged 10 percent higher in 1978, with retail beef prices leading the way early in the year.

We do not expect an increase of that size this year. Instead, we look to an increase somewhere in the area of 7 1/2 percent.

The farm value of the farm foods we produced last year rose nearly 17 percent. This year we anticipate it will go up between 5 and 10 percent. Marketing costs incurred by marketing firms for processing, transporting, and distributing food products also are expected to average about 7 1/2 percent above a year earlier. This would be about the same as the 1978 increase. If we add an expected 5 percent price increase for imported foods, fish, and beverages, we can anticipate grocery store food prices for those products about 7 percent above year-earlier levels. As for food away-from-home, we look for prices to reflect additional costs of labor and services and increase to an average of 8 percent above 1978.

All of these figures are subject to an obvious proviso, of course: if food supplies this year should be larger than now anticipated—and if wage and other cost increases in the marketing system are restrained by anti-inflation measures—then the food price rise in 1979 could be smaller, perhaps around 6 percent. On the other hand, poor weather and tighter supplies of food—coupled with higher costs in the marketing system—could cause food prices to climb as much as 10 percent. As of today, however, an increase somewhere between these two extremes appears most likely.

Crop Insurance and Disaster Program Reform

I would, Mr. Chairman, like to discuss in a little more detail two important pieces of legislation that the Congress will be asked to consider during this session. They are the crop insurance bill and some possible solution to the sugar program.

First, I would like to take up the crop insurance bill.

The administration's insurance proposal is a plan to protect against losses due to weather and other uncontrollable hazards in all counties and to all producers. Participating farmers will be protected against loss up to 90 percent of the cost of production. It is also designed to replace many of the various piecemeal disaster programs including the ASCS low-yield disaster program, and the subsidized low-interest portion of the FmHA and SBA emergency loan programs and the present Federal Crop Insurance Program.

This proposal does recognize the impact of weather upon the farmer's ability or inability to produce an abundant supply of food and fiber.

Optional levels of coverage will be provided to the farmer as well as several price elections. The premium will be based on the accepted insurance factors such as: the risk involved in his particular farm which will vary for differing crops and regions, the level of protection chosen, and the price per bushel chosen. The low-risk areas will not be subsidizing farmers who are in historically high-risk areas. The government will subsidize one-half of the farmer's premium at the lower level of coverage.

The utilization of the existing USDA delivery system and ASCS county committees, coupled with the private insurance agents selling the policy, should provide the best system of marketing the insurance plan. The value of the private insurance sector cannot be underestimated. It is imperative and it is our objective to make use of the private sector in the farmer's local communities. The proposed program complements the existing private crop insurance plans and experience indicates that increased insurance awareness in a community will result in expanded use of hail and other types of insurance sold by the private companies.

Our proposal has been developed around eight principal requirements. They are:

1. The consolidation of existing duplicative programs to increase the protection available to farmers per dollar of federal expenditures.

2. The federal subsidy should be used mainly to share the premium for the lower level of protection with the producer paying most of the premium for higher levels of protection.

3. The program should be neutral in its effect on farm size, location of production, and the commodity mix.

4. To the extent feasible, individual production histories should serve as the guide for setting levels of protection and premiums.

5. Producers should have the choice of the protection level desired.

6. The program must be affordable for most producers and thereby encourage a high level of participation.

7. The private insurance industry should be involved to the maximum extent feasible.

8. A loss-of-production insurance program should be expanded as soon as practicable.

It is our belief that this proposal is a sound, equitable, and meaningful attempt at providing a protection plan to all producers. We believe it is imperative that crop insurance be dealt with quickly in order to provide the needed protection that must be there with the lapsing of the disaster payment program and more importantly, the protection must be there for all those producers who are not now covered by the low-yield disaster payment program or the Federal Crop Insurance Program.

Sugar Situation

Sugar remains a difficult problem. Last year, sugar industry representatives warned of a drastic decrease in refining capacity, in the absence of a strong domestic support program. Some developments, specifically in the Pacific Northwest, now indicate that these were not idle threats. One major refiner announced that four of its factories were for sale--and that they could no longer consider staying in business because of their substantial losses.

We keep hearing the same gloomy forecasts as we get ready to seek a legislative solution this year. Only high yields, superior farming techniques and favorable weather conditions in 1978, helped to sustain many of our growers. Many at least broke even. Some made a modest profit.

I have indicated on several occasions that growers in high cost areas who are faced with adverse cost-over-profit situation ought to be taking a close look at alternate crops. This is not to say that we favor becoming dependent on cheap, imported sugar at the expense of our domestic growers. But the simple economics of it dictate that adjustments have to be made. We can't guarantee a profit to everyone in the sugar business.

We have had two very productive meetings with representatives of the domestic sweetener industry. Consumer and labor groups have also been present and contributed to these discussions. We will meet with them again this month to discuss their comments on a draft bill. The draft bill does not identify a price support commitment. We're trying to reach an accord on that.

Hopefully, we can come to the Congress with a bill that the administration and the various elements of the domestic industry, or a majority of those interests, can agree on.

We need a domestic program. I am encouraged that we can get one, and early in this session, so producers can know where they stand.

We were close to getting agreement on compromise legislation in the last hours of the 95th Congress. Very close. With that foundation to start from, I'm optimistic this year.

Farm Exports

Because of the growing importance of our farm exports to our farmers, the national economy, and to our overall trade relations, I think it is appropriate for the record to discuss this in more detail.

In the six years up to 1978, world imports of grains and soybeans grew by about 60 million tons compared with the six prior years, and about 70 percent of that growth was supplied by U.S. agriculture. In the same period, U.S. production of wheat, feed grains and soybeans rose by 45 million tons, and all but 3 million tons of that increase has gone into meeting increased export demand.

U.S. agricultural exports last fiscal year reached a total value of $27.3 billion. This was $3.3 billion (14 percent) more than the total in fiscal 1977; it was over 3 times greater than exports in 1972, and it was a record high for the ninth straight year.

Export volume, led by substantial gains in wheat, feed grains and soybeans, increased by almost 20 percent, to a record 122 million tons.

For U.S. farmers, that export tonnage represented almost three-fourths of their production of rice, more than half their wheat and soybeans, almost two-fifths of their cotton, more than one-third of their tobacco, and more than one-fourth of the corn.

Agricultural imports totaled $13.9 billion, resulting in an agricultural trade surplus of $13.4 billion--a positive contribution to this nation's total balance of trade in a year when trade in the non-agricultural sector was in deficit by more than $40 billion. I might add that this positive contribution by agricultural trade has exceeded $10 billion for the past five fiscal years.

Improved economic growth over 1977 in most foreign countries, along with weather problems, particularly drought in the Southern Hemisphere, contributed to last year's surge in U.S. agricultural exports.

At the same time, we in the Department of Agriculture took several steps to sharpen the export effort.

The budget of the Commodity Credit Corporation (CCC) export credit program was more than doubled, and sales through this medium totaled a record $1.6 billion.

A noncommercial risk insurance program was launched to make doing business in developing and centrally-planned countries more attractive to U.S. exporters.

The first overseas U.S. agricultural trade office was opened in London, and an agricultural attache post was established in East Germany, a key country in the growing East European market.

New USDA market development cooperator offices were opened in Casablanca to promote U.S. wheat sales and in Tokyo and London to promote U.S. meat and other livestock products.

Looking at 1978-79, world crops are large: record production in the Northern Hemisphere and favorable weather in much of the Southern Hemisphere, where the grain harvest is under way.

Despite the rise in world production, U.S. agricultural exports are off to a vigorous start in fiscal 1979, as continued economic growth in major world markets fuels demand for food and feedstuffs.

The pace will slow as Australian and Argentine grains come on the market this month and after the Brazilian soybean harvest beginning in March, but we are projecting another export record of around $29 billion.

Export tonnage may change little under the impact of larger world supplies, but improved prices for some commodities are expected to provide the increase in total export value.

The larger export gains are expected to be to East and Southeast Asia among the developing countries and to Japan among the developed countries. Shipments to the Soviet Union, which had a record harvest last year, will decline but we expect this to be more than offset by increased exports to China and Eastern Europe.

I am pleased that we enter 1979 with new tools and new financial resources for agricultural market development authorized by the Congress with administration support. We are moving quickly to put them into action.

As you may recall, the administration asked for a market development budget increase of $4 million for fiscal year 1979 and the Congress raised that by $2 million to give us an increase of about 25 percent--to almost $22 million.

Ninety percent of that budget is going to the cooperator program, the backbone of the market development effort in which the Department works with nonprofit producer and trade organizations to expand the sales of U.S. agricultural products overseas.

The budget increase will permit funding for new cooperator offices that have been or soon will be opened to initiate new programs in new areas.

Great Plains Wheat, for example, has closed its office in Caracas and moved to Chile and Guatemala, doubling its coverage in Latin America. It has put a man in Rotterdam to cover Eastern Europe. Western Wheat has begun to operate out of Singapore into Indonesia, Thailand and Malaysia.

Our poultry cooperator has opened an office in Hong Kong. The U.S. Feed Grains Council has stationed a Middle East marketing specialist in Rome and is opening an office in Vienna this month to cover Eastern Europe.

Arrangements have been made to open a cotton market development office in Hong Kong in March.

While expanding the cooperator program, we are working to implement provisions of the Agricultural Trade Act of 1978.

We are giving top priority to action on agricultural trade offices. The act authorized at least six and not more than 25 of these offices, which will provide one-stop service to foreign buyers and U.S. exports in overseas markets.

We have proposed six office locations for fiscal year 1979, and, if we can get approval for additional personnel abroad, and with State Department cooperation, we expect to have them operating by the end of the fiscal year.

The locations are Bahrain, on the Persian Gulf; Singapore, Hamburg, Warsaw, Seoul, and a location yet to be determined to cover the Latin American and Caribbean area.

When these offices are opened, all the major trading regions will be covered except the developing area of North and West Africa. This area is included in our preliminary planning for 1980, along with Peking and Moscow.

We have also asked State Department cooperation in designating Agricultural Attaches assigned to important posts abroad as Agricultural Counselors, which is authorized by the Trade Act.

This will put them on a more equal footing in dealing with host country governments and others in foreign agricultural matters. The Act mandates at least 10 such designations within three years. However, it was the intent of Congress that this be done within one year, and we have identified a number of posts where this would be of most benefit to U.S. agriculture, asking State Department action as soon as possible.

The new relationship with China has added another dimension to the market development work of the Department.

As the Committee is aware, China has returned to the U.S. market for significant amounts of U.S. grain and cotton for some time before normalization, and we have had an agricultural officer in Peking since 1976.

Diplomatic recognition has opened the door to export expansion activities that were not possible before, and we intend to take advantage of the opportunity.

We are organizing in the Department a Working Group on Agricultural Cooperation and Trade with China to coordinate technical and other exchanges and marketing activities.

As the first step in market development, Assistant Secretary Hathaway will lead a team of U.S. market development cooperators to China in March.

They will discuss technical training, equipment, commodity and other Chinese requisites for modernizing their agriculture. As now planned, the group will represent cooperators in U.S. feed grains, soybeans, wheat, the rendering industry, seed trade, livestock breeds, and California fruit.

At the same time, we are participating in the formation of the American Institute in Taiwan, the vehicle for maintaining unofficial relations with the island. We have assured U.S. cooperators and the people of Taiwan that this Institute will enable trade servicing and other market development activities in this important market.

The final factors bearing on the agricultural export future as we enter 1979 are the imminent conclusion of the Multilateral Trade Negotiations (MTN) and the status of negotiations toward a new international arrangement on grains.

In the MTN, we have reached basic agreement with our major trading partners on international codes designed to limit subsidy practices, bring more fairness to use of product standards, and to ease the restrictive effects of import licensing procedures.

We also have completed, except for a few items, negotiations on agricultural requests and offers with the European Community, Japan, Canada and some other countries.

The President has notified the Congressional leadership that a successful conclusion of the negotiations is in sight. Members of the public agricultural policy and technical advisory committees have been meeting in Washington this month to assess the negotiating results prior to preparing committee reports on the outcome of the negotiations.

It would not be accurate to say we got all we wanted for U.S. agriculture. But it is fair to say that there are significant gains for agriculture in the request-offer agreements with other countries and in the subsidies, standards and licensing codes, if the final conclusion is what we expect at this time.

In the Grain Agreement talks, a deadlock between the United States and the European Community over indicator pricing procedures in the Wheat Trade Convention was resolved, and negotiations were reconvened this week.

Final agreement remains to be reached on several difficult issues, but we are hopeful that we can achieve an agreement that will provide greater wheat price stability with fair returns to producers.

We will be working with the Congress in this process. The final MTN and International Wheat Agreement (IWA) will be submitted to the Congress for approval. We will make legislative proposals to implement both commercial trade and food aid commitments contained in these agreements.

Legislation which would authorize USDA to buy and hold an International Emergency Wheat Reserve (IEWR) of up to 6 million metric tons of wheat is considered an important part of our international commitments.

The stocks would be isolated from normal commercial markets and available only for emergency food assistance to developing counties.

This reserve is designed to help insure that the United States could continue to meet priority food assistance needs even in years of short supplies. It would be used to meet:

--commitments under multi-year P.L. 480 agreements;

--other P.L. 480 assistance projects which require continuity;

--critical food assistance needs of the poorest, hungriest countries;

--obligations under a new Food Aid Convention.

The IEWR will be released for concessional sales and grants under P.L. 480 when adequate quantities of wheat are not available in the market. For this reason, the reserve would not be a price-depressing factor in commercial markets.

Without reserve stocks, it would be difficult to meet this commitment in years of very tight supplies. With the IEWR, the United States can assure that its efforts to combat hunger will not falter in times of critical need.

The Agricultural Trade Act of 1978 provides new intermediate credit authority for financing certain export sales beyond the previous three-year limit. Under some circumstances, grain for reserve use and breeding stock exports can now be financed for up to 10 years. The first intermediate credit regulations, for livestock, should be announced soon so that this progressive approach to adding export sales can get underway.

P.L. 480 Food for Development

In 1978, the "Food for Development" section of the P.L. 480 Food for Peace program, was put into effect in Bolivia and Bangladesh. P.L. 480 Title III, passed in 1977, provides for revolving agreements with certain countries under which receipts from P.L. 480 commodity sales can be used to finance approved development projects through to completion. Such rural development projects in developing countries require careful planning and oversight. The aim is to provide needed food, to help the recipient country's economy, and perhaps ultimately to enhance the country's ability to buy U.S. commodities for cash.

Export Sales Reporting

Required reporting of certain export sales of U.S. commodities was initiated in 1973. Provision of current information on export movement is valuable as an indicator of demand, especially to producers. An advisory committee on export sales reporting, called for by Congress, completes its work this month and will make recommendations to make the export sales reporting as effective and useful as possible without placing undue burdens on the private agricultural trade.

Grain Inspection

The abuses that pervaded our export shipments of grain a few years ago seriously eroded our reputation as dependable suppliers of quality grain in a number of our foreign markets.

The changes the Congress made in the U.S. Grain Standards Act in 1976 and 1977, as a result of a series of federal investigations, has done much in restoring the confidence of many of our foreign customers. It is now standing us in good stead as we inaugurate new trade relations with China.

As you recall, the amendments to the Act included:

1. establishing the Federal Grain Inspection Service as a separate agency within the USDA;

2. a provision for official weighing for the first time;

3. an accelerated grain standards developmental program; and

4. an authorization for federal employees to perform original inspection and weighing of grain at export locations and under specified conditions within the United States.

In addition, the amended Act made a number of other changes in the official inspection and weighing system. The amendments were designed to improve the overall official U.S. grain quality certification program and to provide for official weighing, particularly at export port locations.

On December 1, 1978, the agency reported in its Second Annual Report to the Congress, which has been sent to all of you on this Committee.

Our Grain Inpsection Service met the Act's 24-month schedule for implementation of a mandatory grain inspection and weighing system as of November 20, 1978. At that time, the agency was providing official weighing services at interior locations exporting grain under those conditions set forth in the amended Act. To date official weighing services on a permissive basis at interior locations have not been requested.

The time required to build an adequately trained field staff, coupled with an attrition rate of over 30 percent remain major problems and a high cost to the Service. The priority given to the implementation of official inspection and weighing services at export port locations required the relocation of experienced personnel from interior field offices to export field offices having critical manpower needs in meeting export program responsibilities. The impact of this policy left few experienced personnel at interior locations, thus weakening the quality and adequacy of supervision at interior locations. Benefits acquired are reflected in greater grain inspection and weighing accuracy and services. Foreign buyers have informed the department and the Service that they have observed major improvements in the quality and weights of U.S. export grain, as well as in quality certifications. During fiscal year 1979, the agency will concentrate on the quality and adequacy of interior supervision as personnel are recruited and trained.

The elevator explosions that alerted our field staff to a wide-range of elevator safety issues and that impacted on our attrition rate is being addressed through an expanded safety program, and redirected recruitment efforts. As a result of these efforts, a reduction in the current attrition rate of new employees and a reduction in training costs are expected to occur in fiscal years 1979-1980 operations. The utilization of part-time and intermittent employees at export port locations is being expanded to reduce the overtime workload of permanent employees and total labor costs. The grain standards developmental program is being accelerated to develop and implement more objective, accurate, and timely grain quality inspection procedures.

The agency is working closely with manufacturers of inspection and weighing equipment and the grain industry to automate inspection and weighing equipment and procedures to reduce operating costs.

In addition, the Service implemented some lower fee schedules, effective December 3, 1978, due to the agency's costs being lower than initially anticipated. Operational and procedural problems have been and are continually being identified by the Service, the General Accounting Office, and the department's Office of Investigation in an effort to reduce costs and to improve the quality of service to users.

Rural Transportation

The collection and delivery of commodities from the farms to the markets continues to pose serious problems. These problems have been exacerbated in recent years by increased volume of grains to export terminals with inadequate handling and storage facilities; by abandonment of many marginal rail lines and shortage of boxcars and hoppers; by unrealistic and often outdated regulations of the transportation industry; and, finally, by the increasing cost factor which transportation imposes on the farmer and on the final cost of food to the consumer.

We have taken a number of steps to meet some of these problems.

In order to provide greater assistance in solving transportation issues facing farmers, we have established a consolidated Office of Transportation. The new office will serve as a focal point for all USDA transportation matters, including the development of agricultural and rural transportation policy.

We have initiated a coordinated effort to assist state transportation planning agencies in determining their agricultural and rural transportation needs. The department will fund projects to design, develop, and demonstrate procedures to assist state transportation planning agencies in identifying rural transportation needs.

Rail freight car shortages for the movement of grain, fertilizer, and cotton became quite serious early in 1978 and became severe by March and April, with reported daily shortages of over 35,000 cars. The department established a telephone hot line which shippers could call to report their problems. Each call was followed-up with direct contact to the railroad involved or to the Interstate Commerce Commission (ICC). In addition, the department supplied the ICC with other information which would enable them to better anticipate large grain movements to the ports.

During 1979, the department will provide active participation and support for the Rural Transportation Advisory Task Force which is co-chaired by the Secretaries of Agriculture and Transportation. Public Law 95-580, enacted November 2, 1978, created a 16-member task force to study and report to the Congress on methods for enhancing the economical and efficient movement of agricultural commodities, including recommendations for approaches for determining the continuing transportation needs of agriculture, for establishing a national agricultural transportation policy, and for identifying impediments to a railroad transportation system adequate for the needs of agriculture.

In addition, the department has taken a position favoring the following de-regulatory steps with respect to the trucking industry:

1. Allowing truckers hauling exempt agricultural commodities under section 203(b)(6) of the Interstate Commerce Act to haul regulated freight on their return haul.

2. Expanding the current exemption from regulation to include farm input items and all processed foods.

3. Revising the present 15 percent restriction on cooperative trucking for nonmembers to the standard 50 percent test which applies on nonmember business and eliminating the present requirement that such nonmember business be "incidental to the cooperative's primary transportation operation and necessary for its effective performance."

The department is in favor of considering substantial deregulation of rail transportation. With the recent ICC decision on rail shipments of fruits and vegetables, I feel we will have more information as to how rail deregulation will affect the shipment of farm products. The administration is still developing its proposal for reform of rail regulation which should be completed shortly. Even after submission of the draft bill to the Congress, the administration will continue to monitor the effects of deregulation on the industry and the economy.

Soil and Water Conservation

The steady and increased demands, here and abroad, for food and fiber compels us to retarget our emphasis on the careful husbanding of our land and water resources. It is not a matter that we should do this--we must do this.

Our land and water resources are being whipsawed between the demands for greater food and fiber production and the demands from commerce and a mass society for space and water for suburbs, roads, and other developments.

Since 1976, a USDA task force has been working on several reports for use by this Committee in its oversight of the department's land and water conservation programs. The products of this task force serve as useful tools to explain the current status of soil, water, and related resources, and of our related conservation programs.

As a result of this Committee's oversight request, the timetable for a new land use and erosion inventory was revised to speed up the data collection process.

The data show that there is an increasing conversion of good agricultural land to urban uses. Recent estimates indicate that 3 million acres are converted yearly. Nearly one-third of the loss is from the nearly level, less erosive lands. This trend, if it continues, may cause more crop production to shift to less suitable soils, resulting in greater soil loss and sedimentation in the future. In addition, about one-half of the converted land had conservation systems applied, so previous investments in soil conserving practices are being lost.

In response to the impact of other uses of agricultural and other critical lands, USDA issued a new, stronger policy statement advocating the retention of important farmlands and forestlands, prime rangeland and wetlands, or other land designated by state or local governments. In 1979, we expect to make whatever changes are necessary in technical assistance and financial support programs in order to implement these policy objectives. We will also conduct a vigorous campaign to stimulate the appropriate USDA staff at national, regional, state, and local levels to be advocates for the retention of important agricultural lands, proper flood plain management, and wetlands protection.

Soil and Water Resources Conservation Act (RCA)

By January 1980, we plan to provide the Congress with an appraisal of the conditions of our natural resources and a recommended national soil and water conservation program based on this appraisal.

During 1978, USDA took steps to ensure that our water resources programs continue to meet pressing local and national needs in an economically justifiable, environmentally sound, and safe manner.

Changes were made in the watershed protection and flood prevention programs to accelerate the installation of land treatment measures to control soil erosion and reduce water pollution. We are requiring that 50 percent of the drainage area above a dam be adequately protected from soil erosion as a condition for construction.

Our policy was also revised to require that land treatment practices be considered on an equal basis with structural and nonstructural measures so that project plans may include land treatment practices only or a combination of land treatment and structural and nonstructural measures.

Provisions have been made through long-term agreements for federal cost-sharing to install soil and water conservation, water pollution abatement, and fish and wildlife habitat practices where consistent with project objectives and in a manner such that these funds will not compete with those available from other conservation and other environmental cost-sharing programs.

Rural Clean Water Program

The final rules and regulations for the Rural Clean Water Program (RCWP) were published in the Federal Register on November 1, 1978. This program, when funded, will provide financial and technical assistance to rural land users installing Best Management Practices (BMP's) under long-term contracts. The practices include improved systems for abating water pollution from toxics, nutrients, animal wastes, salinity and sediment.

One of the most severe droughts on record in the U.S. occurred in 1976 and 1977. President Carter emphasized water conservation in his Water Policy Message of June 6, 1978. Nationwide, an estimated 81 percent of all water consumed is for irrigation; and in arid and semiarid areas, water for irrigation often exceeds 90 percent of all water consumed. As urban populations increase, energy development activities intensify, and the need for maintaining minimum instream flow is recognized, competition for available water becomes more critical.

During 1978, USDA personnel actively participated on several task forces which were investigating opportunities for achieving the water conservation objective. We are concerned that agricultural use of water be efficient. We also are concerned that other users not outbid agriculture in the marketplace and deprive it of its needed water supply. In 1979, we will be evaluating potential changes in our programs to see which ones are practical to implement. Water conservation through improved irrigation water management will receive emphasis. Protecting and improving the quality of return flows will be an objective as well as reducing the quantity consumed. Technical assistance, cost-sharing, grants, education, research, and more stringent regulations are among the tools available.

The Surface Mine Reclamation Act of 1977 set the stage of the department's future inputs in the reclamation of surface-mined lands.

Currently, we are providing technical assistance to the Office of Surface Mining in the review of state reclamation plans, and assisting state reclamation agencies review requests for surface mine permits. This includes, where appropriate, for the identification of prime agricultural land. Assistance is also being provided with the development of reclamation standards and the conservation practices associated with the reclamation effort.

In 1978, the Rural Abandoned Mine Program (RAMP) was developed in response to Section 406, Title IV of the Surface Mine Reclamation Act. Currently, there are 1.1 million acres of privately owned rural abandoned coal lands that have not been reclaimed. Through this voluntary cost-share program the department anticipates that about 220,000 acres of the abandoned rural non-federal land will be reclaimed.

Land inventories by the Soil Conservation Service indicate that 69 percent of the abandoned coal-mined land eligible for cost-share assistance is in Appalachia, 29 percent in the Midwest, and 29 percent in the western United States. The year 1979 will see the department's implementation of the Rural Abandoned Mine Program, with signup starting early in this year.

Agricultural Conservation Program (ACP)

Mr. Chairman, I also want to report on the Agricultural Conservation Program (ACP). I have had some concerns that much of the funds we have been spending on this program in recent years have not been getting the taxpayers' money's worth in terms of conservation and pollution abatement benefits; but rather have been used to a great extent for practices that mostly enhance production and would be done without federal assistance.

The President has expressed his concern in this regard, and also the Congress in the 1979 agricultural appropriation made it clear that the program must be directed toward solving the most critical conservation and pollution abatement problems. Therefore, we have redirected the ACP by eliminating those practices that would likely be done any way, and we have concentrated on those practices that provide genuine soil and water conservation and pollution abatement benefits. We are also taking steps to assure that these funds were not used to finance practices that would be carried out whether where was federal assistance or not.

I am happy to report, Mr. Chairman, that after reviewing the program which has been developed for 1979, I am able to endorse it enthusiastically. It provides the tools for making a great stride forward in treating real soil and water conservation and farm-related pollution abatement problems.

What we are actually able to accomplish, of course, remains to be seen, but I have many times expressed my confidence in the ability of the farmer-elected ASC committees to get a job done. That confidence remains strong. I feel sure that when the 1979 program year is completed I will be able to proudly report to you on our accomplishments with the ACP.

National Forest Wilderness Areas

Some time this spring, the Congress will be asked to act on the administration's proposal to set aside certain roadless areas for wilderness. The project is called RARE II--Roadless Areas Review and Evaluation.

For the record, Mr. Chairman, a brief background of this important national project is in order--because it has evoked substantial public interest and some controversy, which is understandable.

RARE II is a comprehensive process, instituted in June 1977, to identify roadless and undeveloped land areas in the National Forest System and to determine their general uses for both wilderness and other resource management and development.

The RARE II process identified 2,919 roadless areas encompassing 62 million acres in National Forests and National Grasslands in 38 states and Puerto Rico. The process led to recommendations or allocations of each of these areas to wilderness, for multiple uses other than wilderness (hereinafter referred to as nonwilderness), or as needing further planning for all uses including wilderness.

The nonwilderness category includes different mixes of multiple uses other than wilderness, including but not limited to those permitting campground and other recreation site development, timber harvest, intensive range management, and road construction on the one hand, and relatively primitive wildlife habitat, watershed, and vegetation manipulation on the other.

Extensive as this project of public land allocation has been, it is still part of the broad planning direction for all Forest Service activities laid out by Congress in the Forest and Rangeland Renewable Resources Planning Act of 1974 and the National Forest Management Act of 1976.

The roadless area inventory phase of the RARE II process was completed in the fall of 1977 after massive involvement of the public. The public was asked to suggest additions to or deletions from an inventory of roadless areas, and to suggest criteria which should be used to evaluate those areas for wilderness and nonwilderness use. More than 50,000 persons responded with comments and suggestions.

Based on this response and other resource information, a draft environmental statement was filed with the Environmental Protection Agency (EPA) and issued to the public on June 15, 1978. It included a series of alternatives for allocation of the inventoried areas, and the public was asked to comment on three things: (1) what individual areas should be allocated to wilderness, nonwilderness, or further planning, and why; (2) what approaches should be used by the department in reaching a decision on allocating the total roadless areas inventory, and (3) what decision criteria should be used in developing a proposed course of action.

The public response exceeded expectations. More than 264,000 replies from almost 360,000 people were received. That response, as well as existing laws and regulations was used to help develop the proposed action described in the RARE II Final Environmental Statement.

The Final Environmental Statement recommends 15,088,838 acres for wilderness classification. It allocates 36,151,558 acres for nonwilderness and 10,796,508 acres for further planning.

I should report to this Committee, for the record, the receipts and distribution of revenue from sale and use of National Forest products and services.

Checks totaling more than $239 million were distributed in December to 39 states and Puerto Rico as their share of revenue. This is the most that has ever been distributed under the law that requires that 25 percent of the National Forest receipts be returned to the states where National Forests are located to be used for public schools and roads. Earnings from the National Forests in fiscal year 1978 totaled more than $955 million.

Food Programs

Mr. Chairman, as you and the members of this Committee know, a substantial part of the USDA budget and manpower resources today is directed to the various food programs.

This is as it should be as we pursue the establishment of a total national food policy. We are emerging from a policy of sole concern with the production of food to a larger concern that includes the diet and nutrition needs of consumers, the right of people to share in our food abundance and the protection of health and well-being of all our people.

For this reason, I think it is necessary to report to you, in some detail, the status of some of these programs.

Food Stamp Program

The Food and Agriculture Act of 1977 contains sweeping reforms which have resulted in a massive revision of the Food Stamp Program.

Last fall, we published final rules governing household eligibility, certification and issuance procedures, and participation of retail stores and wholesalers. The requirement that households purchase their food stamps was eliminated by some states on December 1, 1978, and all other states on January 1,1979. This change will sharply reduce the number of coupons in circulation, thus cutting federal printing and shipping costs; it will reduce opportunities for trafficking and it will end abuse by vendors handling cash. Additionally, it should make the program more accessible for many of the poorest households, most particularly the elderly and working poor.

While elimination of the purchase requirement should encourage participation, tighter eligibility rules--to be implemented no later than March of this year--will also eliminate higher income households. The new rules lower net income limits to the federal poverty level; tighten student eligibility criteria; count as assets the value of non-income-producing cars in excess of $4,500; replace a series of complicated itemized deductions with three standardized deductions; and disqualify for up to 12 months households transferring assets in order to qualify for food stamps. A final rule, to be published shortly, would bar from the program for 2 months persons who voluntarily quit a job without good cause within the 60 days prior to applying for food stamps.

The Act's stricter penalties for fraud and provision for 75 percent federal funding of state costs of investigating and prosecuting fraud will give us additional tools to combat program abuse; and our requirement for continuing and comprehensive training for food stamp workers should contribute to a lower error-rate.

We will be monitoring and policing the program closely and believe that the reforms of the new Food Stamp Act will result in tighter management and better service to eligible households.

School Meal Programs

1978 was the first year of operation of the new Nutrition Education and Training Program, Section 19 of the National School Lunch Act. In this first year, 46 states began nutrition education activities, using $24.8 million of federal funds of the total $26.2 million appropriated. State priorities, as illustrated by the FY 1978 Nutrition Education State Plans, are training for teachers and food-service personnel, and development of curricula and material for classroom and pre-school nutrition education. Various innovative approaches for reaching the students will be implemented under the Nutrition Education and Training Program, and others will be tested in demonstration projects funded with Section 18 Nutrition Education Demonstration Grants.

A new meal pattern will more accurately meet the nutritional needs of children of varying ages and bring the lunch requirements into conformance with the 1974 revisions of the Recommended Dietary Allowances as established by the National Research Council of the National Academy of Sciences.

Six developmental projects related to improvements in school meal service are presently underway. These include:

1. Determination of the effects of changes in the school lunch meal requirements.

2. Demonstration projects for involving students, faculty, and parents in the school lunch program;

3. Demonstration projects for controlling sugar, fat, and salt in school lunches;

4. Demonstration projects for providing one-third of the Recommended Dietary Allowances (RDA) for food energy in school lunches;

5. Pilot projects using the Science and Education Administration's Extension specialists to train school food service managers, and

6. Pilot projects to determine the impacts on nutrition, food quality, and plate waste in providing schools with cash in lieu of commodities for school lunches.

In 1978, the department proposed to ban the sale of competitive foods of low nutritional content in schools with National School Lunch and Breakfast Programs. Public comments on this issue raised questions which will be further considered in public meetings scheduled for early 1979, before new proposed regulations are issued in the spring.

Summer Food Service Program

In 1978, several significant management changes led to important improvements in the operation of the summer program. These changes, which included state registration of food service management companies, will be continued and expanded in 1979. The pilot special account system, designed to assure that food service management companies would receive their share of program payments to sponsors, was so successful that the 1979 summer program regulations will give each state the option of adopting the special account system. Other major changes in the 1979 Summer Program regulations include special additional administrative funds directed to sponsors and sites located in rural areas, and to sponsoring organizations which prepare meals onsite rather than contracting for meal service.

A serious problem this year is the decision of many states not to operate the Child Care Food Program or the Summer Food Service Program. In such cases, the department must assume responsibility for the state operation of these programs. As of the end of 1978, the department was directly administering the Child Care Program in 12 states, and the summer program in 18 states. Additional states are threatening to turn the programs back to the federal government. Direct operation of such programs places severe strains on our already limited staff resources.

Child Care Program

In 1979, major reforms in the Child Care Program will be implemented under the mandate of P.L. 95-627.

Commodity Purchase and Distribution

The department sponsored a series of food procurement workshops in 1978 that will continue in 1979. The workshops make resources from Food and Nutrition Service; Agricultural Marketing Service; Food, Safety, and Quality Service; Food and Drug Administration; and National Marine Fisheries available to train state agencies and local school districts to purchase food more efficiently and economically.

A bonus program has been established to assist states which can effectively utilize Section 416 commodities in greater quantities and to help reduce CCC inventories. When Section 416 commodities are ordered by a state over and above its entitlement, the commodities are considered as a bonus to that state and will not be counted against its entitlement. The bonus program will remain in effect as long as large quantities of price-supported foods are available and can be properly utilized.

Special Supplemental Program for Women, Infants, and Children (WIC)

P.L. 95-627 extends the WIC program through FY 1982. Major legislative reforms will be embodied in regulations this year.

Evidence continues to mount on the effectiveness of the WIC Program. A major study was completed in 1978 by the Department of Health, Education, and Welfare's Center for Disease Control (CDC), which has established a WIC nutrition surveilance system in 13 states. The CDC study found that children entering the WIC Program have a high prevalence of anemia, but of those children with low hemoglobin or hematocrit values, 94 percent had been raised to satisfactory levels by the second WIC follow-up visit. The improvements were most dramatic for those children who had the lowest values prior to entering the WIC Program. Children entering the WIC Program with low weight-for-height show marked growth during the first 6 months of their participation.

In four WIC Programs in Massachusetts, a comparison was made between 627 women participating in the WIC Program and a control group of 217 women who did not participate in the program but who had been certified as eligible. The study concluded that the incidence of low birthweight infants among WIC participants was significantly less than among those who did not participate in the program. Moreover, because the WIC Program reduces the number of low birthweight infants and thus avoids longer periods of hospitalization that would have otherwise occurred, participation in the WIC Program was found to be three times more cost effective than non-participation.

In an effort to improve services to migrant farmworkers and their families, a pilot WIC Program for migrant farmworkers and their families was implemented during the 1978 migrant season. The main objective of the Migrant Project was to provide funds to open or to expand WIC programs in areas which experience a large influx of migrant farmworkers. Thirteen states, including 62 local agencies and an estimated 5,000 recipients, participated in the project. Although a final report on the project evaluation of the WIC Migrant Demonstration Project will not be available until May 1979, preliminary findings will permit USDA to incorporate what was learned from the operation of this demonstration project in plans for service to migrant populations before next year's labor season.

A WIC Automated Data Processing Model System has been developed and is operating in nine states. Control and reconciliation of expenditures is one of the system's greatest advantages. It allows states to expand their caseloads while at the same time providing full accountability and expediting participant service at a minimum cost.

School Lunch Programs

Each year USDA buys and distributes about 20 percent of the foods used in the Nation's school lunch programs. This is more than one billion pounds of food at a cost of over one-half billion dollars.

We must be a "super shopper" to get the best quality at the best prices. I assure you that we never sacrifice quality for economy for our Nation's school children.

This administration is committed to improving the diet and health of all Americans, and we are redirecting our purchasing to meet that commitment. We are buying foods with reduced fat, sugar, and salt contents.

We are specifying that frozen ground beef not exceed 22 percent fat content--the equivalent of "extra lean" ground beef. Previous ground beef purchases had up to 24 percent fat content.

In 1978, we began requiring that ingredients be listed by percentage on labels of canned beef and poultry, and on frozen fried chicken, and turkey rolls.

To broaden choices available to school cooks and to children, we started buying some new commodities--for example, frozen potato rounds, canned vegetarian beans, frozen mixed vegetables, tomato catsup, and raisins packed in individual-sized packets.

Though reduced supplies and higher prices caused by adverse weather will undoubtedly affect our purchases in coming months, we anticipate no serious problems in buying the products needed for the school lunch and other domestic feeding programs.

Meat and Poultry Inspection

The primary objectives of the Federal Meat Inspection Act and the Poultry Products Inspection Act are to assure the consumers that meat and poultry products distributed to them are wholesome, not adulterated, and properly marked, labeled, and packaged. The Acts require the Secretary of Agriculture, through appointed inspectors, to inspect the slaughter of livestock and poultry and the processing of meat and poultry products at establishments for distribution in interstate or foreign commerce or in certain designated states.

When the Acts were first passed, inspectors' duties were relatively simple: one of the principal purposes of the Acts is to keep diseased animals out of food channels and assure sanitary operations in processing plants.

Over the last few years, advancements in animal and poultry husbandry practices have altered the incidence of disease and changed health-related conditions. Technological changes in processing, distributing, and merchandising have resulted in a diversity of processed food products previously unknown.

Modern inspection is made further complex by the growing number of meat and poultry plants requiring federal inspection--a 149 percent increase in 10 years. The demand for federal inspection soared largely because close to half the states have relinquished to USDA their responsibility for inspecting plants operating solely in interstate commerce.

At the same time, inspection costs to the government have been rising faster than the rate of industry expansion. Those states which continue to operate their own intrastate inspection programs also feel this inflationary pressure.

Given the current technological and economic setting for meat and poultry inspection, we have new opportunities for strengthening the inspection program. Before discussing our opportunities and accomplishments, I would like to give you a summary of the major problems we are tackling.

Nitrite Regulations

The effect of nitrite on human health is one of the most debated and puzzling issues now facing science and agriculture. For years the use of nitrite as a preservative has given meat--such as bacon, ham, and hot dogs--its distinctive characteristics and has prevented botulism, a deadly form of food poisoning. Scientists have discovered in recent years that under certain conditions nitrite combines with other chemicals in food to form cancer-causing nitrosamines.

Under the Federal Meat Inspection Act, a food product is adulterated if it "...bears or contains any poisonous or deleterious substance which may render it injurious to health."

Over one year ago, the department began action to eliminate nitrosamines from bacon while retaining the use of nitrite at reduced levels that would still preserve food and prevent botulism. Further action will be taken to eliminate nitrosamines from other meat products.

But a recent study now strongly suggests that nitrite itself, apart from its reaction with amines, is carcinogenic. This study, conducted by the Massachusetts Institute of Technology and commissioned by the Food and Drug Administration, is now under extensive review by independent scientists. Results of the review will not be known until late spring.

If nitrite is found to be carcinogenic, we would prefer to phase out, rather than immediately ban, the use of nitrite in food products. USDA and the Food and Drug Administration have asked the Justice Department for a decision on the legality of phasing out versus banning nitrite. Our objective is to take action consistent with the intent of the Federal Meat Inspection Act while maintaining adequate safeguards against botulism and causing the industry as little economic disruption as possible.

Several members of Congress have expressed concern about the timing and direction of this course of action. I assure you that our goal is not to halt the use of nitrite overnight nor without warning...that final action by the Department of Agriculture or the FDA is not imminent...that when action is taken, it will conform to President Carter's Executive Order requiring public announcement and participation.

Net Weight Regulation

A second problem we are working on is the current net weight regulations for meat and poultry products at retail. The law now permits "reasonable" variations--without numerically defining "reasonable"--under several circumstances. Under the current regulations, net weights on prepackaged meat and poultry labels must be accurate when the product leaves the plant. There is no assurance that the net weight will still be accurate when the product is purchased by the consumer.

A Supreme Court decision of March 1977 further intensifed the issue by preventing state and local officials from enforcing their own regulations requiring accurate weights on federally inspected products at retail. The Court ruled that federal regulations over meat and poultry products take precedence over conflicting state and local regulations.

In December 1977, USDA published in the Federal Register a proposal that would eliminate the provision allowing "reasonable" variation from net weight regulations. The proposal quantifies exactly how much variation from the regulations is permitted and for what reasons, such as imperfections in equipment used to fill containers.

The 3,000 comments received from individual consumers, consumer groups, industry, and state and local weights and measures officials are still being assessed.

We reopened the comment period in late 1978 to receive additional comments on an economic impact study which had been contracted by the department. These comments are not yet assessed.

The General Accounting Office has reviewed the net weight issue. GAO has recommended to the Secretary that more information be gathered about the most accurate way to effect net weight labeling before a final regulation is issued.

I can assure you that we are fully aware that any action we take on net weight regulations for meat and poultry products may well set a precedent for other foods. We will give careful thought and attention to all viewpoints before making a final decision.

Chemical and Drug Residues

The use of chemicals and drugs to improve production technology is well documented. But those chemicals and drugs can leave a byproduct--residues--in meat and poultry whose effect on the quality of life is not understood. We are now beginning to assess this third issue.

Sulfa drug compounds, for example, have been used for over 20 years to control atrophic rhinitis, pneumonia, and dysentery in swine.

When USDA expanded its swine residue monitoring program in the early 1970's, our meat inspectors found that each year 10 to 15 percent of the samples checked had illegal residues.

For several years the government blamed producers' failure to follow recommended withdrawal times for these consistent violation levels. But nothing the government could do--not increased testing, public exposure of the problem, or threats of penalties--resulted in lower violation rates.

Last spring, we launched a special industry-government campaign to find the real sources of the residues. As a result of on-the-farm surveys, it was found that contamination of premixed feed or its component ingredients and the recycling of manure were among the sources of residues.

With the information we got from the surveys, we are now helping producers reduce residue levels in swine and are conducting further research to determine how and why residues occur under various conditions. We have also begun a system to help producers whose hogs have illegal residues.

We are using a similar cooperative-educational approach to help the dairy industry resolve the problem of antibiotic residues in culled dairy cows.

We are very optimistic about the success of this approach in dealing with swine and dairy cow residue problems. We feel it offers an alternative to previous policies and greater consumer protection and involves less regulation and lower costs to government.

Import Information System

We are now using the Import Information System in our meat and poultry inspection program.

Through computers, we are now able to tie together our import inspection stations across the country. We can compare the inspection of any given lot of meat and poultry from any country with the inspection of an earlier, similar shipment at any port of entry. Sampling plans will reflect the inspection results of all previous importations. Inspection results will be immediately available to inspectors at all ports. Acceptance or rejection of foreign meat or poultry products will now be based on a more statistically sound sampling.

With the new Import Information System, we will more efficiently allocate our inspection resources.

Joint Food Labeling Hearings

In response to the public mandate for better coordination among government agencies this year, USDA, the Food and Drug Administration, and the Federal Trade Commission co-sponsored a series of hearings on a total food labeling policy. This joint approach gave the public the opportunity to express its viewpoints at one time to the three agencies responsible for food labeling and advertising.

Over 450 people testified at the hearings, which were held in five cities, and more than 5,000 others submitted written comments.

Once the comments are assessed, we will work with the FDA and FTC to develop a food labeling policy that meets the current and future needs of the American public.

Food Quality Assurance Program

We are also seeing evidence of the benefits of intergovernmental cooperation in our work with the Department of Defense. DOD is giving USDA the responsibility for quality assurance inspections of DOD food purchases, except fish. The transfer is ahead of schedule.

USDA is the lead agency in putting into effect a governmentwide food quality assurance program. The progress made to date in consolidating quality assurance work and improving the food purchase specifications has already resulted in dollar savings in the millions.

Farm Credit and Rural Development

Our investment in farmers and rural people continues to increase as we try to meet the credit needs of modern agriculture and to improve the quality of living for rural people.

The Agricultural Credit Act of 1978 is a comprehensive and far-reaching farm and rural credit bill which greatly improved our capacity to meet the credit needs of modern farmers and rural families.

Some measure of the increased credit demands imposed on the Farmers Home Administration can be seen from the sheer dollar volume of loans in a three-year period--from $5.4 billion in fiscal 1976 to $11.1 billion in fiscal 1978. Of this increase over $700 million was for guaranty of loans made by private lenders to rural businesses, and over $3.1 billion is for various kinds of emergency credit assistance.

FmHA's investment in rural America is compressed into four major categories--agriculture, housing, community facilities, and business and industrial projects. Here's a brief listing of loan activity in the four categories:

Housing

During the fiscal year ending 9/30/78, FmHA financed more than 117,000 individual homes and 1,466 multi-family rental housing projects, many designed especially for senior citizens. Since it entered the housing field in 1949, FmHA has financed construction or purchase of over 750,000 new single family homes plus roughly 165,000 rural rental apartments making a total of 915,000 new home units--one out of every 25 homes currently occupied in non-metro areas.

In FY 1979, the agency's investment in housing programs will run slightly higher than the FY 1978 level. Currently FmHA is financing about one out of every five new homes started in non-metro areas.

The agency introduced in 1978 a rental assistance program to low income families in rural apartments built with FmHA loans.

We have received, but not yet funded, authority to include a Housing Opportunity Assistance Program (HOAP). Under HOAP, a family will pay 25 percent of its adjusted income toward principal, interest, taxes, insurance and utilities with the Farmers Home Administration paying the balance.

FmHA made 155,951 farm loans totaling nearly $5.0 billion in FY 1978, doubling the previous record year.

Agriculture

More than 12,000 farm ownership loans were made by Farmers Home Administration in FY 1978. One of every eleven U.S. farms has received an FmHA farm ownership loan, either to purchase or improve real property, or to refinance short-term debt. Funds available for these loans in FY 1979 amount to $800 million compared to $550 million for FY 1978.

Nearly 90,000 emergency loans to refinance farmers injured by weather and other natural disasters were made by FmHA in FY 1978.

FmHA launched in 1978 a new $4 billion economic emergency loan guarantee program to help farmers and ranchers who were unable to obtain credit from their regular lenders, owing to the low farm prices we experienced in 1977 and early 1978.

Community Facilities

FmHA made loans in fiscal 1978 totaling $750 million and grants of $304 million for 2,000 water and waste disposal projects in rural areas. Since it began lending for this purpose FmHA has helped to finance installation, expansion, or modernization of over 11,000 water and/or sewer systems. In FY 1979 agency loans for this purpose will perhaps increase to $900 million.

During the fiscal year ending last September 30th, Farmers Home Administration made 450 loans totaling $250 million for financing other types of community facilities including hospitals, other medical facilities, fire stations and equipment, recreation centers, community buildings, and others.

Business and Industry

In FY 1978 the agency guaranteed payments of principal and interest on business and industry loans made by conventional lenders in rural and small town areas totaling $1.0 billion. During FY 1979 it is estimated that these loan guarantees will reach $1.1 billion.

To meet the new responsibilities and in order to deliver loan services promptly and efficiently—a problem that has constantly plagued the agency--we have moved to streamline the delivery system, obtaining and training better qualities of leadership in our 46 state, 242 district, and 1,853 county offices.

County offices are near the point of being relieved of all but individual lending in farm and housing programs. A new type of sub-state district office is being created to handle community and organization loans and grants.

In all cases, the grouping of counties with FmHA districts will be the same as in sub-state development planning districts. This will enable us to coordinate better with the development objectives adopted in rural areas, and help to develop and support investment strategies that will bring about fulfillment of those local and area goals.

We intend to function more as a development agency, and less as a lender taking no interest in factors looking beyond the immediate loan or the single project. We feel that we can stay true to our basic purpose of providing for minimum basic needs of the most distressed rural people and communities, while considering the broader context of state and local development plans and goals. We have recently taken a lead in initiating studies to pin down answers to what rural America needs--to strengthen the economy, assure healthful and adequate water, provide decent shelter, establish basic community facilities, and bring reasonable health and transportation services for all people on farms and in small towns who need it most.

As a final note with respect to farm loan services, we welcome and hope for an even greater participation by private lenders in programs they can share through the FmHA guarantee. It brings us their assistance in servicing, and makes for less budget impact in an era when inflation is a number-one concern. And it brings into rural areas a great new flow of capital from central money markets not otherwise accessible to the farmer and small community.

Disease Control

One of USDA's major achievements in 1978 was the successful conclusion of its 15-year hog cholera eradication program. Last year was the first time since the 1830's that the U.S. was free of the most destructive and costly swine disease the country has ever known.

Before eradication efforts, hog cholera cost U.S. producers about $50 million annually (that's more than $100 million yearly at today's prices), yet the disease was eliminated in less than two decades at a total cost to the taxpayers of only $140 million.

1978 was also the year USDA began a 3-year trials program to determine the best strategy to use against one of the Nation's most costly insect pests, the cotton boll weevil. The experiment, consisting of an eradication trial and an optimum pest management trial, is environmentally-oriented, involving integrated use of biological controls, cultural practices and pesticides. It has produced outstanding results during the first year. Extensive evaluations are underway on the economic, environmental, and biological aspects of the various alternative strategies which will enable us to make a recommendation at the conclusion of the trials.

When contagious equine metritis, a previously unknown breeding disease of horses, invaded this country from Europe, USDA acted quickly and successfully to isolate it in Kentucky. Quarantines and control actions are holding the disease in that state until eradication can be completed.

In 1979, one of the primary targets will be the control and eradication of the Mediterranean fruit fly which could cost the U.S. citrus industry some $67 million a year if it got a serious foothold in this country.

This year, we will open the Harry S. Truman Animal Import Center at Fleming Key, Florida. This station will make it easier--and safer--to import livestock from countries where foot-and-mouth disease exists. Such imports are needed for breeding purposes and the continued improvement of U.S. herds.

We are in the process of completing a computer information network in six major ports to obtain detailed data on the history, background, and movements of vessels that might possibly carry unwanted pests and diseases into this country. This is a sophisticated preventive project never before available to the department.

Science and Education

In January of 1978, USDA's Science and Education Administration (SEA) was organized, combining four separate agencies under one integrated direction. These agencies included the Agricultural Research Service (ARS), Cooperative State Research Service (CSRS), Extension Service (ES), and the National Agricultural Library. In addition, SEA also includes an entirely new and unprecedented concept--the Human Nutrition Center. More about the Center, later.

Integration of these agencies, as the Congress recognized, was imperative and long overdue.

Two major objectives can be achieved with the establishment of SEA:

--Provide effective direction to all the diverse and separate functions of research and education which previously have largely gone their own way as autonomous units within USDA. Basic research and the effective delivery of information and use of that research is too important to be left stranded without effective direction.

--Belatedly our national food policy has moved forward from a position of sole concern for only the production of food, to a broader concern that includes the nutritional qualities of food, for that, in essence, is what eating and health is all about. This second objective is now on-track.

After one brief year, I can report that we can see marked progress in increased coordination of all our state and national research, development, and education programs.

The new Human Nutrition Center became operational this fiscal year. Staffing will be completed later this year.

The Center includes the Nutrition Institute at Beltsville, the Consumer Food and Economics Institute at Hyattsville, the Northern Nutrition Laboratory at Grand Forks, the Children's Nutrition Laboratory at Baylor, and the new laboratory at Tufts University in Boston.

Research at Baylor will place primary emphasis upon nutrient needs of the young infant. The first research effort at Tufts laboratory will be directed toward the role of diet in the prevention of certain diseases and the relationship between diet, aging, and the immunological response.

Enlargement of the Food Composition Laboratory will be completed shortly. This group is working closely with the group developing the Food Consumption Data Bank. USDA and HEW are developing a coordinated plan for nutritional surveillance and monitoring of nutritional status. The first summaries of the results of the National Food Consumption Survey are anticipated in late spring or early summer.

Rural Electrification and Communication

The electric power and telecommunication needs of farmers and rural people have undergone revolutionary changes over the years.

No longer is it the sole concern of the Rural Electrification Administration (REA) to merely hookup a power line to a farm.

Today rural electric systems financed by REA must meet the growing power needs of not only farmers but also of an increasing number of people moving to rural areas. The accompanying rise in business and industry expansion in those areas has resulted in a growth in demand for electric power 50 percent greater than that for the Nation as a whole.

Meeting those new massive power needs while complying with environmental regulations, coping with serious energy shortages, meeting the constant challenges of new technological advances, and constantly beset by inflation problems has caused the responsibilities of REA to be entirely different now than they were just a few years ago.

It is within this context that the administration and the Congress must view the power and telecommunication programs of USDA.

We have developed an energy conservation policy that will require, as a condition for future loan approval for all electric cooperatives, that they plan and carry out aggressive programs of energy conservation.

Closely related to this effort are load management programs that are directed at the time of the use of electric power. REA is authorizing loans or loan guarantees for special devices that turn off appliances, such as water heaters or air conditioners, during periods of peak use so that some new loads can be served by presently available facilities.

We are also encouraging use of alternate energy systems, such as wood stoves and solar heating systems in homes and, in cooperation with DOD, are supporting demonstration projects that will use smaller generating units, such as 1,000 to 5,000 kilowatt fuel cells, small hydroelectric facilities, generating systems that use some form of biomass (wood or manure) for a source of heat, and coal field gasification.

REA will soon make a significant allocation of its staff and budget resources to deal with its borrowers in the development of new power supply. One decision has already been made in this regard, to reallocate assignments in order to double the staff devoted to environmental issues so that REA fully conforms with the National Environmental Protection Act requirements and to assure that the commitment to meeting utility responsibility of the borrowers is performed in a timely fashion and in an acceptable environmental manner.

Rural telephone systems are also facing a number of new and unique challenges owing to changes in regulatory and legislative attitudes regarding national telecommunications policy, as well as significant new technological developments. In the regulatory area, decisions by the Federal Communications Commission have introduced competition in the telephone industry. In the legislative area, the House Subcommittee on Communications (of the House Interstate and Foreign Commerce Committee) has proposed, in the rewrite of the Communications Act of 1934, further expansion of the concept of competition in the delivery of telecommunications services.

The Department is viewing these changes very carefully. While we are interested in protecting rural people from unfair rules and regulations in this field, we do not oppose competition. All we ask is that any changes be carefully considered as to their impact on rural people.

The FCC has taken a major step in regard to rural areas by undertaking consideration of a general waiver of its prohibition on cross-ownership of cable television facilities by telephone companies which serve low density areas and the administration has supported such a waiver. Concurrent with this action, the administration is considering steps to provide loans to telephone companies to support the construction of broadband facilities which will provide an array of public services.

- - - - -

USDA 188-79

U.S. DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250

OFFICIAL BUSINESS
Penalty for Private Use, $300

POSTAGE & FEES PAID
United States Department of Agriculture
AGR 101

NO. NAMES 3
0